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SUBJECT: AMBASSADOR'S INTRODUCTORY CALL AT MINISTRY OF
LABOR AND SOCIAL AFFAIRS

REF: PRAGUE 01173

¶1. (SBU) Summary: During the Ambassador's October 16 introductory call on Deputy Prime Minister and Minister of Labor and Social Affairs Petr Necas, Necas expressed his support for strong transatlantic ties as a fundamental foreign policy pillar for the current government, and lamented the Czechs' exclusion from the Visa Waiver Program. Necas agreed to a follow-up meeting to discuss the impact of a new law making it mandatory for all non-EU citizens to pay into the Czech social security system. Necas reviewed the challenges his government faces implementing fiscal policy and pension system reforms, regretted continued decrease in the defense budget and admitted that reform prospects were dim until early elections, likely to take place in summer ¶2007. End Summary.

¶2. (SBU) Minister of Labor and Social Affairs Petr Necas (who is also deputy chairman of the governing ODS, and previously served as ODS shadow Defense Minister) emphasized that maintaining strong transatlantic ties with the U.S. was a key priority for his government. He reiterated his government's continued support to NATO and coalition military missions abroad, including in Iraq. Necas pointed out the only problem in the strong bilateral relationship involved the visa requirement for Czechs, and said he was perplexed that the U.S. would limit the free movement of people, one of the greatest privileges of a democratic system. He explained that the visa issue is a tool for anti-Americanism among Czechs and should be abolished or "softened" in the next couple of years.

¶3. (SBU) The Ambassador raised concerns about the new law that requires all citizens of non-EU countries and countries without a bilateral totalization agreement to pay into the Czech social security system starting January 2007. Acknowledging the problem, Necas agreed to meet separately on the issue.

¶4. (SBU) Necas briefed the Ambassador on the state of the draft 2007 budget, lamented that the defense budget continued to shrink further below the 2% GDP NATO target, and laid out his priorities for pension reform. He reported that the Czech budget deficit has accelerated over the last several years and caused the Czechs to miss the Maastricht convergence criteria for government deficits of 3.0% of GDP. He said the government deficit reached 3.6% of GDP in 2005, is expected to be in the range of 3.6% to 3.8% for 2006, and may go as high as 4.2% of GDP in 2007 (reftel A).

15. (SBU) Necas blamed the previous government for the budget deficits, and has proposed reforming the pension system to control government spending. He reported that the pension system will cost the government CZK 5 billion (USD 230 million) in 2006, and CZK 10 to 15 billion (USD 500 to 750 million) by 2010. To ensure the solvency of the pension system and start reducing expenditures, he wants to increase the number of years workers pay into the social security system as well as the mandatory retirement age to claim benefits. He is also calling for a reduction in welfare benefits for the unemployed to encourage recipients to take one of the estimated 250,000 available jobs and start contributing to the economic system.

16. (SBU) Despite his bold plans for reform, Necas appeared pessimistic about implementing any changes before possible early elections in 2007. Given his government's failed vote of confidence on October 3, Necas predicted a caretaker government of technocrats would rule until early elections in either May or August 2007. He ruled out any chances of a grand-coalition between the two leading parties, CSSD and ODS, and said it was "unacceptable" to the vast majority of ODS members. He made clear that without a strong political consensus on the need for economic reform, it was unlikely to happen.
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